

ILLINOIS POWER AGENCY
DRAFT 2012 PROCUREMENT PLAN

COMMENTS OF COMVERGE, INC.

September 14, 2011

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Comverge, Inc. (“Comverge”), by and through its attorneys Giordano & Associates, Ltd., submits the following comments concerning the Illinois Power Agency (“IPA”) for 2012 Draft Procurement Plan (“Draft Plan”).

Comverge

Comverge has spent the last 30 years as a provider of intelligent energy solutions. It is a recognized leader in providing demand management services across the United States. In that regard, Comverge has acted as a supplier of demand response capacity for large commercial and industrial customers in capacity auctions and operator of electric utilities’ demand response programs for residential customers.

Residential and Small Commercial Customers are Locked Out of the Illinois Demand Response Market

Demand response allows electric utilities to control purchases of energy and capacity during the peak usage period, when both energy and capacity costs are at their highest, and during system emergencies, when reliability is threatened. By securing commitments from customers to reduce their consumption upon demand by the utility, demand response provides an equivalent to capacity purchases from generating units. Moreover, demand response provides an advantage over generating units because demand response simply eliminates the need for electricity use at peak times and thereby lessens the need to purchase electricity at the highest marginal rates.

Currently, PJM holds capacity auctions for ComEd capacity procurement, and qualified aggregators such as Comverge are allowed to aggregate demand response from large commercial and industrial users for purposes of making capacity bids. While it is theoretically possible that aggregators for residential and small business customers could bid in the PJM auctions, such bidding is not practical and, as a result, aggregators have not bid on their behalf at PJM auctions.

ComEd is not currently allowing residential customers to sign up for its demand response program, so ComEd's current program cannot act as a substitute for the IPA's procurement of capacity through demand response. (ComEd 2011-2013 Energy Efficiency and Demand Response Plan at 35.) Moreover, Ameren has never offered demand response programs to residential and small business customers. Therefore, large commercial and industrial customers in Illinois can currently take advantage of the benefits of demand response (*i.e.*, payments from utilities in exchange for agreeing to reduce usage during peak periods), but residential and small business customers cannot do so.

The IPA is Required by Illinois Statute to Procure Demand Response

The IPA is required by statute to include demand response in its procurement plans, but the Draft Plan contains no provisions for the procurement of demand response products for either Commonwealth Edison Company ("ComEd") or Ameren Illinois Utilities ("Ameren").

Specifically, 220 ILCS 5/16-111.5(b)(3)(ii)(A) requires that IPA's procurement plans include:

The proposed mix of demand-response products for which contracts will be executed during the next year. The cost-effective demand-response measures shall be procured whenever the cost is lower than procuring comparable capacity products, provided that such products shall be procured by a demand-response provider from eligible retail customers [*i.e.*, residential and small business customers].¹

The Draft Plan, however, contains no provisions for the procurement of cost-effective demand response measures from residential and small business customers. This omission unfairly

¹ Eligible retail customers are defined by the Illinois Public Utilities Act as "those retail customers that purchase power and energy from the electric utility under fixed-priced bundled services tariffs, other than those retail customers whose service is declared or deemed competitive under Section 16-113 and those other customer groups specified in this Section, including self-generating customers, customers electing hourly pricing, or those customers who are otherwise ineligible for fixed priced bundled tariff service. (220 ILCS16-111.5(a)) For ComEd, eligible retail customers are those customers with less than 100 kW of monthly peak demand (*i.e.*, residential and small business customers) who buy under fixed-priced bundled service tariffs. For Ameren, the current cut-off point is 400 kW of monthly peak demand.

precludes residential and small business customers from receiving the benefits of participating in demand response programs.

IPA Procurement of Demand Response can be Cost-Effective

For ComEd, the principal objection in the past to procurement of demand response capacity by the IPA has been that ComEd's capacity for the next three years has already been purchased through PJM auctions. Opposition to IPA procurement of demand response is unfair to residential and small business customers, who are effectively precluded from participating in demand response programs used in the PJM auctions.

Most importantly, IPA procurement of demand response for ComEd can still be cost-effective for the following reasons:

- a. As the IPA notes in its Draft Plan, PJM already has a process for returning capacity credits to ComEd if the amount procured three years prior to the delivery year exceeds the amount actually needed in the delivery year, and these credits can be used to offset shortfalls in other time periods or sold to third parties. (IPA Draft Plan at 47.) Therefore, to the extent that the IPA procures demand response capacity on behalf of residential and small business customers and this results in PJM later determining that the amount of capacity ComEd procured three years prior to the delivery year exceeds the amount actually needed for a particular delivery year, PJM could return these excess capacity credits to ComEd. Then, ComEd can sell the excess capacity credits and return the corresponding proceeds to residential and small business customers.
- b. Demand response contracts are available for long terms, up to 10 years. To the extent that the cost of demand response from residential and small business customers is less

than a projected benchmark cost of capacity during the ten-year period, then the demand response capacity would be cost-effective and should be procured under the statute.

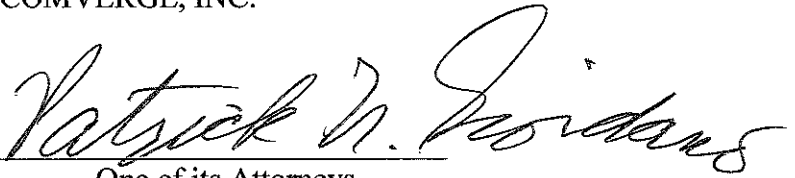
Proposal

Comverge proposes that the IPA modify its Draft Plan to include the procurement of demand response capacity provided by residential and small business customers of ComEd. Demand response would be procured through a separate, stand-alone procurement event held in the Spring of 2012. The product requested in the RFP should be capacity from eligible residential and small commercial customers, for which the demand response provider, not the utility, would be fully responsible for delivery when called by the utility or PJM. IPA would include RFPs for three, five and ten year contracts. Demand response bids would be deemed cost-effective if their average annual price over the terms of the contract was less than the benchmark determined by the procurement administrator of the weighted average price of (a) the projected average price of excess capacity credits on the PJM market projected by the procurement administrator, for the first three years of the contract, and (b) the average price of capacity projected by the procurement plan administrator for years four through ten, as applicable. (220 ILCS 5/16-111.5(d)(3).)

With respect to Ameren, since the IPA is already proposing to procure capacity on behalf of Ameren, the IPA should allow demand response capacity bids in response to IPA's RFPs for capacity resources. Moreover, the RFPs should be designed so that sufficient demand response resources are acquired to reduce Ameren's peak demand for eligible retail customers through cost-effective demand response measures by 0.1% per year over the prior year, as required by Section 8-103(c) of the Public Utilities Act. (220 ILCS 5/8-103(c)).

Respectfully submitted

COMVERGE, INC.


One of its Attorneys

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